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New Zealand

DAIRY AND PRODUCTS SEMI-ANNUAL

SEMI-ANNUAL

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Report Highlights:
Total milk production in New Zealand is forecast to increase 8.3% in the 2009 marketing year. Post has revised the production estimate upwards from 16.35 to 16.4 million tons of milk. New Zealand inventories reportedly peaked in February and March at an estimated 175,000 to 200,000 tons more than normal. As prices fell, customers started coming back into the market at the end of January 2009. While whole milk powder exports during the first three quarters of the current marketing year are running at 7% behind last year at 441,000 tons, they surged 32% in March compared to March the previous year. WMP production is still forecast at 710,000 tons but exports have been adjusted downward by 80,000 tons to a total of 620,000 ton.

Executive Summary:
Total milk production in New Zealand is forecast to increase 8.3% in the 2009 marketing year, due largely to more favorable pasture growing conditions and a record number of cows in milk.

Post has revised the production estimate upwards from 16.35 to 16.4 million tons of milk.

The credit crisis hasn't spared the New Zealand dairy sector. When the credit crisis kicked in, Fonterra was just coming back into the market with additional supply but there had already been a significant amount of advanced procurement and many customers had sufficient stock during the later part of 2008. As a result, inventory levels in New Zealand spiked as Fonterra struggled to move their product. New Zealand inventories reportedly peaked in February and March at an estimated 175,000 to 200,000 tons more than normal. However, as prices continued to fall, customers responded by starting to come back into the market at the end of January 2009. According to industry contacts, Fonterra, the largest dairy cooperative in New Zealand with a 92% share of domestic milk collection, has basically sold all of this year's production but actual shipping volumes out of New Zealand are three weeks to a month later than in past years.

The improved outlook for commodity prices resulted in Fonterra announcing an increase in its forecast payout to dairy farmers from NZ $5.10 kilogram/milk solids to $5.20/kg MS. This compares to an original forecast at the start of the year of NZ $7.00 kg/MS.

Whole milk powder (WMP) exports during the first three quarters of the current marketing year (June 2008 to February 2009) are running at 7% behind last year at 441,000 tons. While WMP exports for the first quarter of the calendar year are roughly on par with the same period last year, they surged 32% in March compared to March the previous year. While WMP production is still expected to reach 710,000 tons, export forecast have been adjusted downward by 80,000 tons to a total of 620,000 tons.

New Zealand exports of WMP to China have increased dramatically reaching nearly 41,000 tons during the first quarter of 2009, up from approximately 7,300 tons during the corresponding period the previous year. During January and February, the prices paid were approximately 10% less than the overall average price received for New Zealand WMP.

Over the last few years, the combination of plentiful credit, strong demand for dairy products, especially in the developing world, and the availability of up to 50 million liters of regulated milk from Fonterra per new entrant under the Dairy Industry Restructuring Act (DIRA) have encouraged several new processors to set up shop in New Zealand, many with offshore investment. Over the next few years, these new entrants will likely have the capacity to double their current production. If they achieve the targets set out in their business plans, Fonterra's share of the market could drop to as low as 84% by 2013.

A select parliamentary committee is currently reviewing submissions regarding the direction the New Zealand Government should take in addressing climate change issues. To date, the New Zealand Government has focused on a 2010 deadline to implement the Emissions Trading Scheme (ETS), which was passed last year just before the New Zealand election. According to newspaper reports, Fonterra says the ETS should be kept, but only if changed significantly. Fonterra told the committee that New Zealand's dairy production could fall by 5%, costing the economy $650 million annually unless the ETS is changed.

Commodities:
Dairy, Butter
Dairy, Cheese

Dairy, Dry Whole Milk Powder
Dairy, Milk, Fluid
Dairy, Milk, Nonfat Dry

Production:

Fluid Milk Production Forecast to Break Record

Total milk production is forecast to be 8.3% ahead of the 2007/08 season, due largely to more favorable pasture growing conditions during the 2008/09 season and a record number of cows in milk. Post has revised the production estimate upwards from 16.35 to 16.4 million tons of milk.

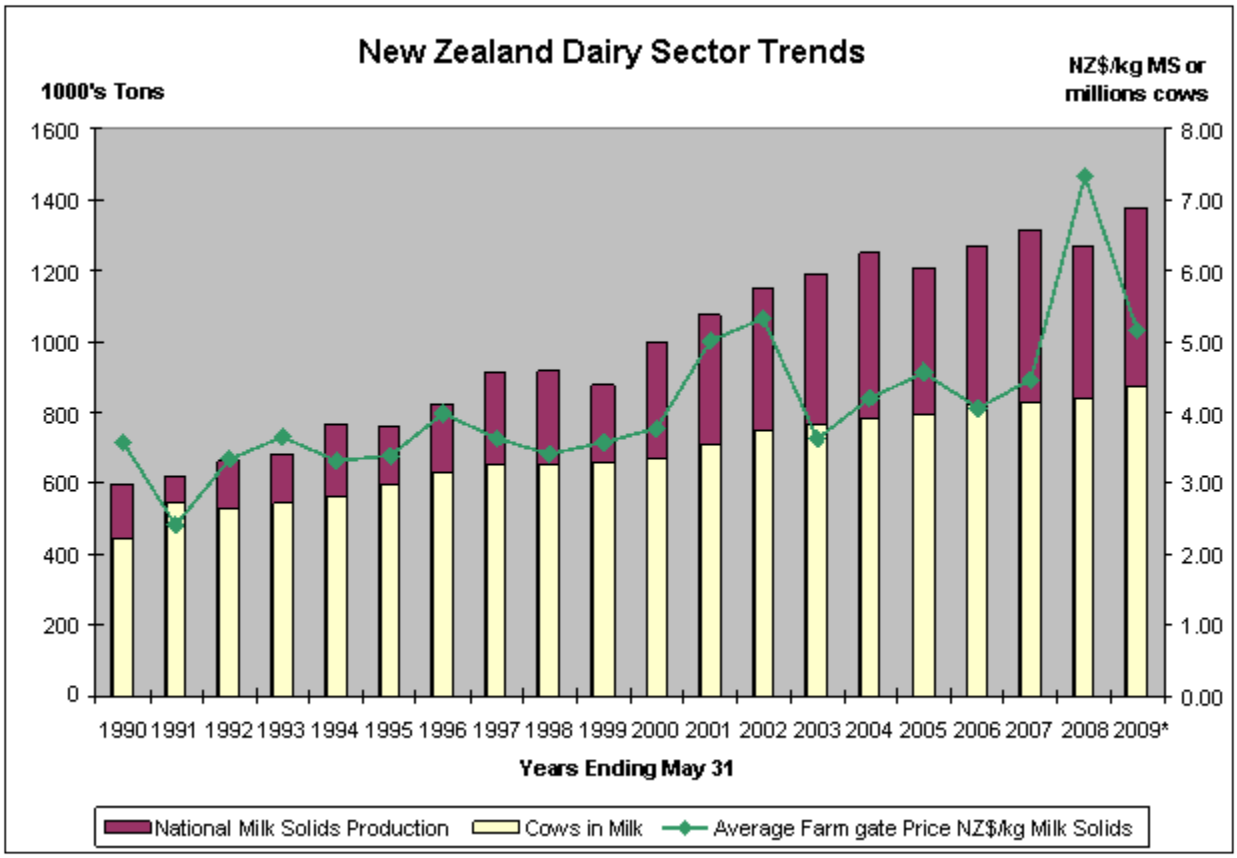
New Zealand producers started the season with 4.365 million cows in milk - 165,000 head more than the previous year. The season started slowly due to a relatively cool spring (Sept/Oct 2008) and the lingering effects of last year's widespread drought. By December 2008, milk production was barely ahead of last year's level. While drought conditions returned to the east coast of the North Island, the main dairy areas have had reasonably good rainfall during the summer and autumn. The Waikato, Manawatu and Canterbury regions experienced dry conditions during April, but it was too late in the season for a significant impact on production. Good rainfall over most of New Zealand in late April and early May has meant that farmers are not drying their herds off early. The exception may be in the Southern North Island and the Canterbury region of the South Island. Reports indicate that cow condition in those areas is not as good and pasture levels are not yet good enough to ensue a good start to next season.

According to industry contacts, Fonterra's milk collection is expected to increase 6% compared to last season. Westland's milk collection is reportedly up between 1 and 2% this year and Tatua's collection is up a reported 8 or 9%. These two cooperatives, along with the new processors in the market, including Synlait, New Zealand Dairies, and Open Country Dairy, now account for approximately 8% of New Zealand's domestic milk collection.

Producer Payout Drops from Last Year but Still Third Highest on Record

Fonterra recently announced an increase in its forecast payout to dairy farmers from NZ $5.10 kilogram/milk solids to $5.20/kg MS. This compares to an original forecast at the start of the year of NZ $7.00 kg/MS. Chairman Henry van Der Heyden indicated that additional profits, over and above this level of payout, are likely to be retained to shore up the cooperative's balance sheet.

Most of the other milk processors link the price they pay for milk to Fonterra's payout. However, Westland cooperative has signaled to its suppliers that it is likely to pay out a lower price than Fonterra. Last year, Westland's payout was slightly higher than Fonterra's payout.



Sources: MAF, Livestock Improvement Corporation, Post estimates, Stats New Zealand; *Note: Estimate for 2009

Producers Respond to Drop in Payout by Reducing Costs

The unexpected 29% drop in the average price of milk solids, from NZ $7.32 kg/MS in 2007/08 to a forecast $5.17 kg/MS this year, has caused farmers to look closely at their cost structures. Since 1990, there have been two other instances of precipitous falls in payout levels. In 1991, there was a 33% decline in the payout price and cow numbers declined 3% by the onset of the 1992 season. In 2003, there was a 32% decrease in the payout price but, rather surprisingly, farmers responded by increasing herd numbers by 2% in the following season.

New Zealand Dairy Farming Profitability Table (NZ dollars per kilogram of milk solids)				
Key Indicator Category	**FY 06**	**FY 07**	**FY 08**	**FY 09**
Milk Sales	4.13	4.12	7.32	5.17
Livestock Sales & Sundry Income	0.21	0.31	0.35	0.30
Change in Value Livestock	0.24	0.16	0.30	0.15
Total Gross Income	4.58	4.59	7.97	5.62
Farm Working Expenses	3.54	3.63	4.70	4.15
Debt Servicing	0.98	1.03	1.30	1.15
Rent	0.10	0.10	0.10	0.10
Net Profit	-0.04	-0.17	1.87	0.22

Source: DairyNZ and post estimates

Note: Farm working expenses include depreciation and wages of management to the owner either real or adjusted. Data has been collected from owner operated farms which comprise approximately 67% of all dairy farms

Since the early 1990s, on-farm costs (including depreciation and management wages) have been running at approximately 55% to 65% of total gross income. With the exception of last year, on-farm costs over the last several years have crept up to between 70% and 80% of gross income. Compliance costs, district government charges, electricity costs, and wages have increased every year. Coupled with farmer decisions to increase production by using extra inputs such as nitrogen fertilizer, supplementary feed, and off-farm grazing for young stock and over wintering cows, these factors have resulted in increased production costs and reduced profitability.

Chasing that last 10 to 20% of production has been suddenly shown to be very dubious in terms of profitability, especially if it involves using supplementary feed or expensive off-farm grazing. Fonterra has already detected in its farmer surveys a trend away from increasing supplementary feed inputs back to all grass feeding. This is corroborated with anecdotal evidence from farmers who are reviewing their systems closely and cutting out or drastically reducing the use of grain/meal and maize (corn) silage. Use of nitrogen fertilizer is being reviewed especially given the huge price increases that occurred in the last half of 2008. Some farmers are looking at nitrogen inhibitors and other measures to enhance the effectiveness of nitrogen so that they can use less, but still get the same pasture response, and reduce nitrate leaching and nitrous oxide emissions, a green house gas.

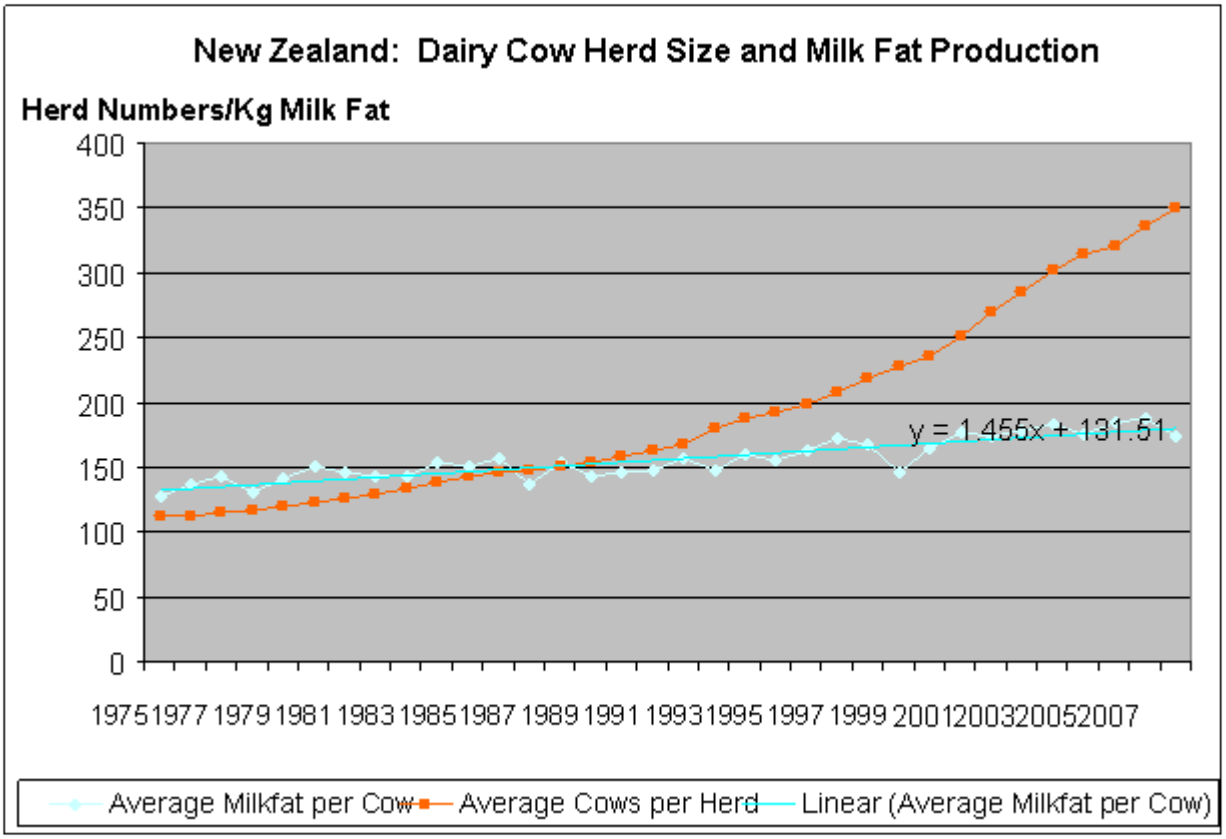
Cow Kill Returns to Normal Levels

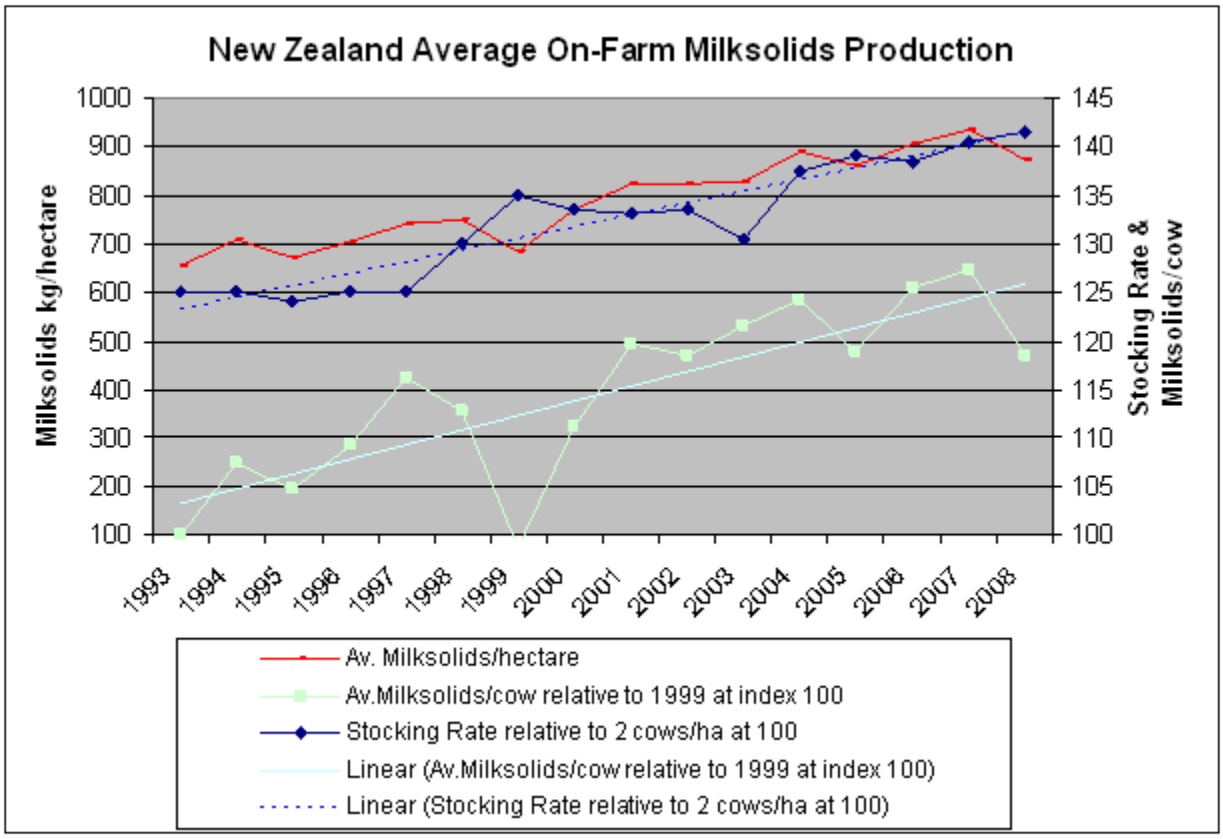
For the past several years, farmers have retained cows of all ages to maximize production but this trend has come to an end. Farmers have responded to the drop in the milk payout price by culling cows. Cow kill during the Oct 1, 2008 to Apr 25, 2009 time period is 43% ahead of the same period last year. Approximately 70-80% of the kill in New Zealand comes from the dairy herd.

In March 2009, one South Island livestock broker reported that prices for good-quality in-calf heifers had fallen from NZ $2,300- $2,400 in November 2008 to NZ $1,300 -$1,400 in March 2009.

Production Trends

From 1990 to 2000, milk solids production in New Zealand grew at 5.2% per annum. Since 2000, the growth rate has slowed to 3%. During the same period, the total number of cows increased by 3.9% per annum, but over the last nine years, the rate of increase has slowed to 2.6%. The total number of herds has dropped from 18,540 in 1990 to 11,436 in 2008, but the average herd size has increased from 159 head in 1990 to 351 head in 2008. Stocking rates have increase at 0.9% per annum since 1993 and production per cow has increased 1.3% per annum over the same time period.





Source: Livestock Improvement Corporation

Outlook for the 2010 Season

On the heels of a significant increase this year, production in the 2010 season is likely to increase between 1% and 2%. There are a number of factors that will temper production including on-farm management changes, particularly the reduction in demand for supplemental feed. The new dairy conversions from sheep/beef or forestry land expected to take place this year - approximately 50 to 100 nationwide – may or may not offset the number of farmers exiting the sector due to retirement and other factors. Cow numbers are expected to stabilize, or increase slightly, even though there is an increased cattle slaughter. Some of the large farms running four to five cows per hectare will likely reduce cow numbers but the long-term trend suggests that, if the stocking rate is reduced, cow performance increases. Likewise, the average farmer with 350 cows at 2.83 per hectare tends to rely primarily on pasture grass with low to moderate amounts of purchased feed. There is plenty of scope for these farms to reduce feed inputs and adopt better grazing management techniques and actually increase both production and profit.

New Processors in the Domestic Market

Over the last few years, the combination of plentiful credit, strong demand for dairy products, especially in the developing world, and the availability of up to 50 million liters of regulated milk from Fonterra per new entrant under the Dairy Industry Restructuring Act (DIRA) have encouraged several new processors to set up shop in New Zealand, many with offshore investment. Over the next few years, these new entrants will likely have the capacity to double their current production. If they achieve the targets set out in their business plans, Fonterra's share of the market could drop to as low as 84% by 2013.

Many of the new entrants point to the DIRA regulated milk as having helped them get established and achieve processing efficiencies early on. While the overall cost of regulated milk is not necessarily any cheaper once transport and handling costs are factored in, some new entrants report that the advantage is the convenience and the ability to plan milk flow more precisely. (Under DIRA regulations, new entrants to the dairy industry may obtain up to 50 million liters per annum of milk from Fonterra at a regulated price. Currently, this system is under review.)

New Zealand: Overview of Dairy Processors (other than Fonterra)						
Company Name	**Date Established**	**Company Type**	**Estimated Milk Processed 2008/09 Season** 1/	**Milk Accessed under DIRA 2008/09 Season**	**Estimated Milk Processed 2012/13 Season**	**Product Focus**
			Millions of kilograms of milk solids			
Westland Milk Products	1937	Cooperative	42	0	47	Milk Powder, Butter, AMF, Caseins, Caseinates etc.
Tatua	1919	Cooperative	16.5	4.2	18	Caseinates, AMF, Specialty Products
Goodman Fielder		Corporate	20	20	20	Yogurt and Fluid Milk
Open Country Dairy	2007	Corporate	52	3	82	Cheese, Whey (low protein), WMP
NZ Dairies	2007	Corporate	15	4.2	24	WMP and Child Nutrition Products
Synlait	2008	Corporate	18	4.2	40	WMP, AMF, SMP and Nutritional Products
NZ Organic Dairy Farmers Coop	2008	Cooperative	0	0	6	Cheese
Mataura Valley Milk	In process of raising capital	Corporate	0	0	16	WMP
Ingredients	In process of	Corporate	0	0	8	Caseins and Whey

Solutions	raising capital					Protein
New Zealand Milk	In process of raising capital	Corporate	0	NA	NA	NA
Total			163.5	35.6	261	

Sources: Press reports; Agricultural Affairs Office estimates

1/ Includes 35.6 million kilograms of milk obtained from Fonterra under the Dairy Industry Restructuring Act. Terms for Goodman Fielder are different from those of other companies.

Note: To convert from millions of kilograms of milk solids to liters, multiply by 11.56

Organic Milk Production

One of the new entrants is an organic cheese processor located in Taranaki on the North Island. This company, which is scheduled to start production this year, will initially take in 22 million liters of milk, has the capacity to process up to 70 million liters. The company reportedly already has suppliers able to commit 43 million liters in the 2010/11 season.

Consumption:

Post is forecasting liquid milk consumption to fall 4% this year compared to FY2008, but the consumption of other dairy products is expected to remain unchanged. A trend toward lower consumer prices should begin to stimulate demand again after the price rises endured last year.

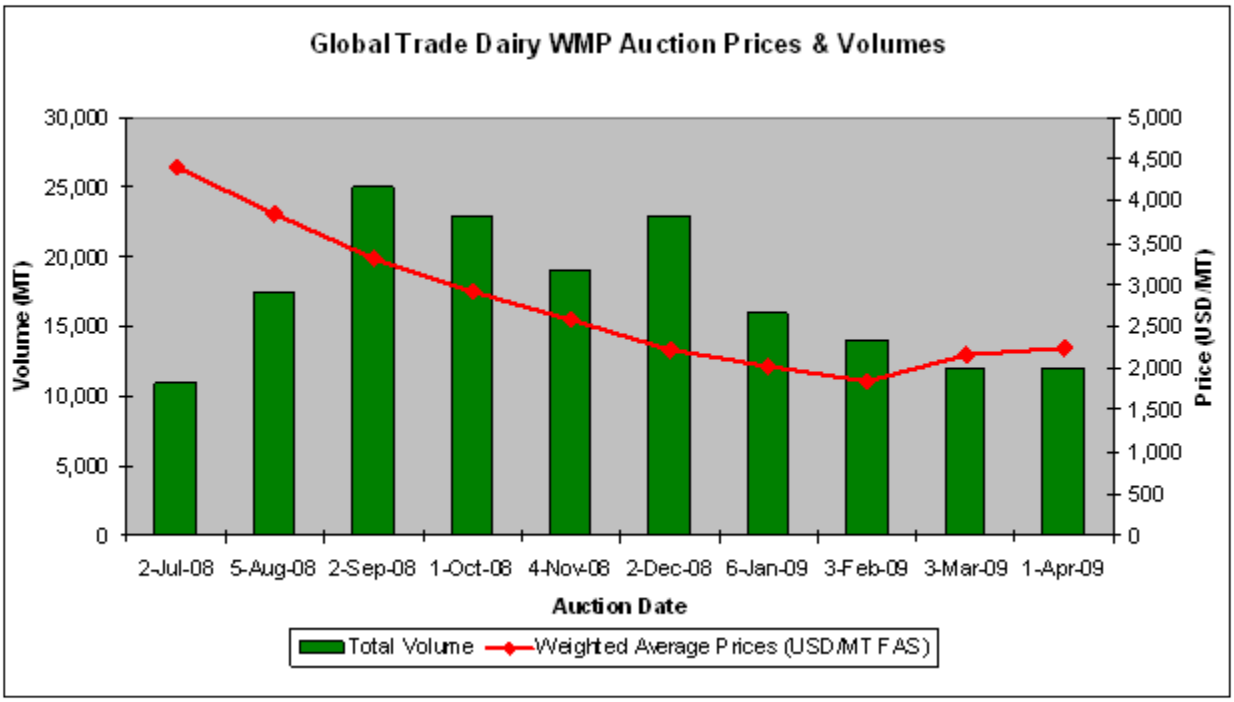
New Zealand Retail Price Trends for Standard Dairy Products in NZD							
Product	March 2007	March 2008	% change	Sep-2008	Feb-2009	April 2009	% change from peak
Milk Std Homogenised (2 liters)	$2.61	$3.25	25%	3.33	3.31	3.22	-3.3%
Cheese Mild Cheddar (1 kg)	$6.46	$10.69	65%	11.19	10.51	9.09	-18.8%
Butter Salted (500 grams)	$2.04	$3.71	82%	3.8	3.63	3.15	-17.1%

Trade:

Overview

The credit crisis hasn't spared the New Zealand dairy sector. When the credit crisis kicked in, Fonterra was just coming back into the market with additional supply but there had already been a significant amount of advanced procurement and many customers had sufficient stock during the later part of 2008. As a result, inventory levels in New Zealand spiked as Fonterra struggled to move their usual volumes. New Zealand inventories reportedly peaked in February and March at an estimated 175,000 to 200,000 tons more than normal. However, as prices continued to fall, customers responded by starting to come back into the market at the end of January 2009. According to industry contacts,

Fonterra has basically sold all of this year's production but actual shipping volumes out of New Zealand are three weeks to a month behind past years.



Source: Global Trade Dairy-Fonterra

Whole Milk Powder

WMP exports during the first three quarters of the current marketing year (June 2008 to February 2009) were running 7% behind last year at 441,000 tons. Post is still forecasting WMP production to reach 710,000 tons but has scaled back the export forecast by 80,000 tons to 620,000 tons. Ending stocks will increase by the same amount but will likely be drawn down fairly quickly with an expected increase in exports in June and July 2009, given the lag in shipments.

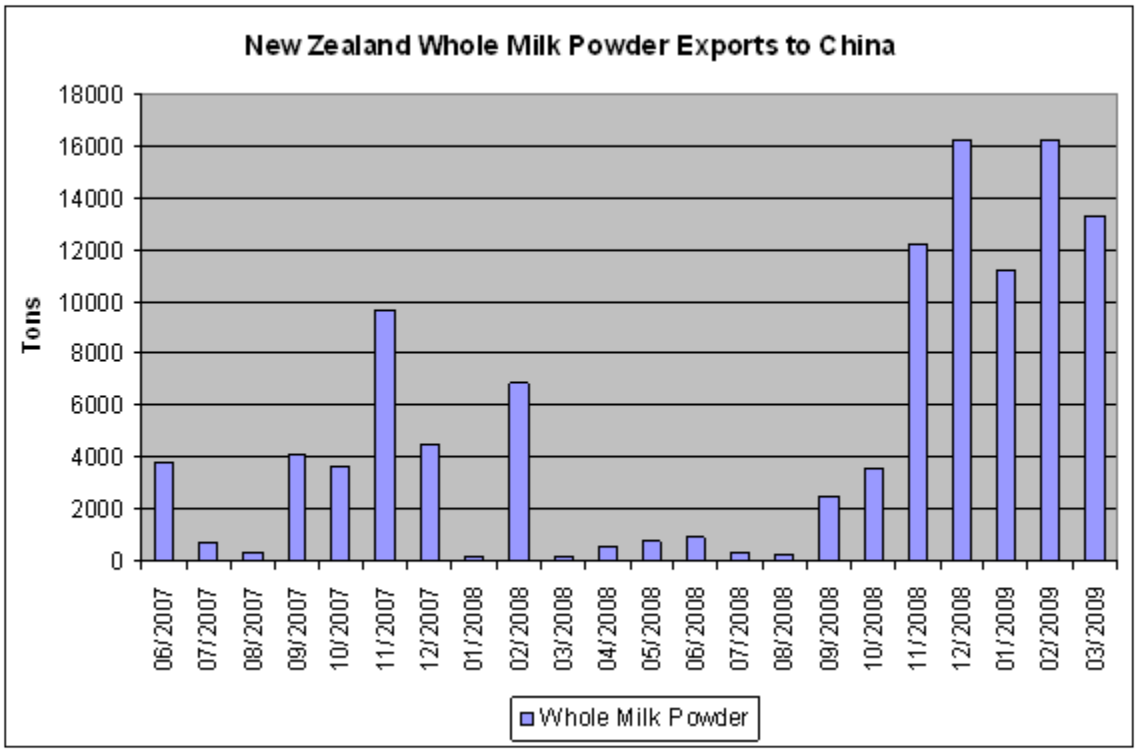
New Zealand exports of WMP to China have increased dramatically reaching nearly 41,000 tons during the first quarter of 2009, up from approximately 7,300 tons during the corresponding period the previous year. During January and February, the prices paid were approximately 10% less than the overall average price received for New Zealand WMP.

WMP will continue to be the core dairy product exported by New Zealand for the foreseeable future. Although Open County Dairy's initial plant produces cheese, the major

new entrants to dairy processing are focusing on WMP. Also, Fonterra's new factory in the Southland is being built around a 30 ton per hour WMP drier.

New Zealand Exports of Whole Milk Powder			
	First 10 months of Marketing Year (June to Mar) Quantity in Tons		
Destination Country	**2007**	**2008**	**2009**
China	42756	34073	76972
Venezuela	49543	68472	60044
Algeria	25578	34721	56698
Indonesia	26508	21389	42864
Malaysia	29321	34844	34827
Sri Lanka	43600	44791	33181
Singapore	12596	9054	18597
Saudi Arabia	31344	33759	17890
United Arab Emirates	21657	7699	17135
Taiwan	13084	7923	14222
Sudan	7840	1897	14175
Philippines	22640	25562	14016
Thailand	20132	18534	11326
Mexico	19262	32102	11032
Nigeria	16862	10384	8727
Oman	11406	9187	7391
Other Destinations	136845	135326	74900
Total For World	**530985**	**529721**	**513996**

Source: Global Trade Atlas


New Zealand Whole Milk Powder Exports to China
Tons
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
06/2007
07/2007
08/2007
09/2007
10/2007
11/2007
12/2007
01/2008
02/2008
03/2008
04/2008
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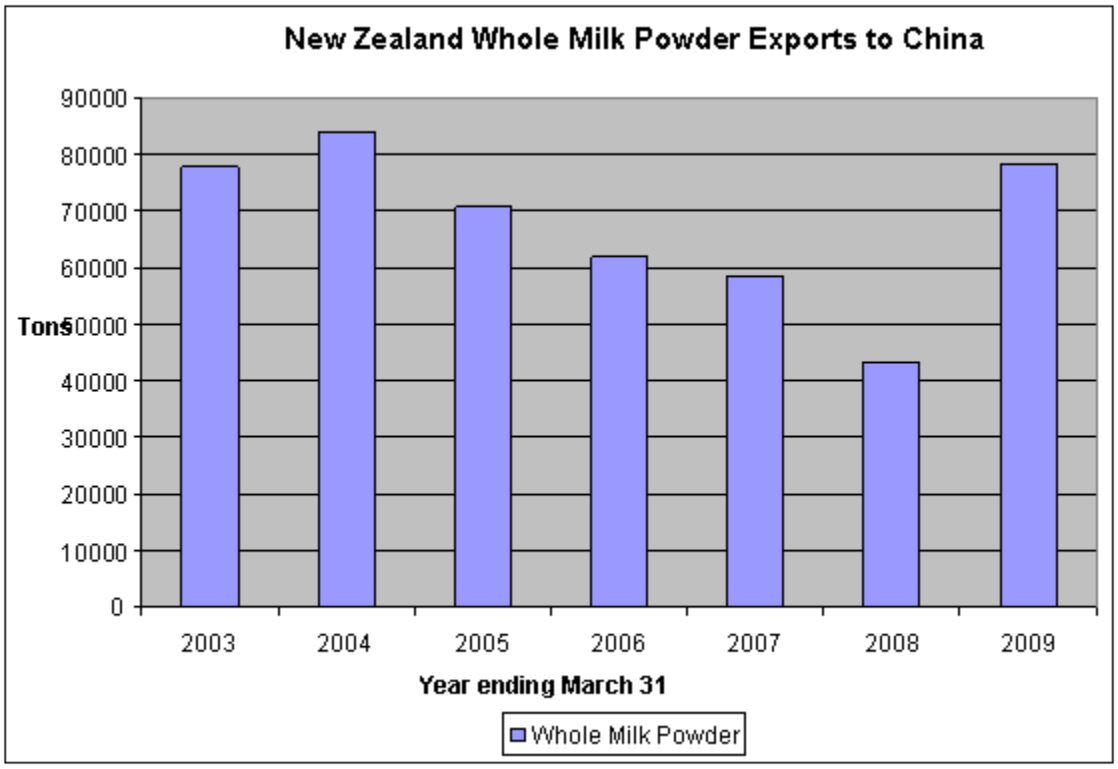
Whole Milk Powder


New Zealand Whole Milk Powder Exports to China
Tons
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
2003
2004
2005
2006
2007
2008
2009
Year ending March 31
Whole Milk Powder

Source: Global Trade Atlas

Skim Milk Powder (SMP)

As the manufacturing season got underway in late 2008, there was an emphasis on production of SMP and fat because of the struggle to obtain orders, especially for WMP. The fact that SMP can be stored longer than WMP and butter likely influenced production decisions.

During the first nine months of the current marketing year, exports of SMP reached 192,292 tons, up 2% compared to the same period last year. For the 2009 marketing year, exports are expected to reach 275,000 tons. This is 24,000 tons higher than the previous year but 13,000 tons lower than originally forecast.

Production in the current marketing year is still estimated to be 310,000 tons so ending stocks are likely to be pushed upward from 35,000 tons to 68,000 tons. However, they will likely be drawn down due to increased exports in June and July.

Westland, a dairy cooperative on the South Island, has a different manufacturing profile to Fonterra and the other new entrants with approximately 32% of its production going to SMP versus 14% to 16% for the rest of the industry.

New Zealand Export of Skim Milk Powder			
	First 10 months of Marketing Year (June to March) Quantity in Tons		
Destination Country	**2007**	**2008**	**2009**
China	21415	10381	22995
Malaysia	22330	20744	22533
Philippines	37725	31460	21463
Indonesia	24926	18315	17747
Thailand	26767	13550	17074
Singapore	14359	14011	16856
Saudi Arabia	16650	16641	13438
Iran	6045	1565	9293
Vietnam	7806	18525	9063
Mexico	7628	13199	8796
Nigeria	342	2753	6796
Australia	1899	3484	5755
Algeria	11076	2313	5628
Taiwan	9723	6313	5255
Japan	5023	1833	4725
Sri Lanka	3736	3513	4650
Other Destinations	55487	27946	35565
Total For World	**272930**	**206538**	**227620**

Source: Global Trade Atlas

Butter

Butter production is expected to be 405,000 but post has adjusted the butter export forecast downward to 365,000 tons from the original estimate of 382,000 tons. As a result, inventory levels have been increased from 45,000 tons to 62,000 tons. However, stocks are expected to be drawn down again due to higher expected exports in June and July. (Note: PSD numbers are adjusted for anhydrous milk fat to butter equivalents so export figures in the PSD will differ from trade statistics.)

New Zealand Exports of Butter & Other Dairy Fats			
	First 10 months Marketing Year (Jun to Mar) Quantity in Tons		
Destination Country	**2007**	**2008**	**2009**
Iran	25140	22657	29240
Belgium	33891	37015	24723
Denmark	19831	28024	22944
Russia	31417	18635	21838
Egypt	25410	11684	19773
United States	20749	17053	18881
Mexico	17191	10800	11297
China	10807	8679	10842
Saudi Arabia	12003	10747	10132
Australia	9421	15580	9939
Philippines	6059	6886	9424
Azerbaijan	12637	11932	8992
Malaysia	4993	5755	6343
Indonesia	4652	6481	5494
India	7624	0	5491
Taiwan	10378	8952	5038
Vietnam	7051	4885	4976
Singapore	7043	5634	4670
Morocco	7271	5824	3710
United Arab Emirates	4113	4212	3380
Thailand	6581	4739	2916
Other Destinations	53932	40497	40800
World Total	**338173**	**286671**	**280841**

Source: Global Trade Atlas

Cheese

During the first nine months of the current marketing year, cheese exports totaled 198,000 tons or 36,700 tons less than the same period last year. Post has revised the 2009 export forecast down from 325,000 tons to 280,000 tons. The production forecast is unchanged which means that ending stocks will increase by 45,000 tons to a total of 80,000 tons.

Like other dairy product categories, the increased stock level will likely be sold down over June and July, 2009.

New Zealand Exports of Cheese & Curd			
	First 10 months of Marketing Year (June to March) Quantity in Tons		
Destination Country	**2007**	**2008**	**2009**
Japan	52476	55753	39221
Australia	41116	42369	34119
United States	23967	18036	23874
Korea South	9961	15476	12042
United Kingdom	10940	5795	8454
Saudi Arabia	8705	10465	8006
Philippines	8373	8926	7592
Bahrain	631	3279	7410
Indonesia	2523	4820	5462
China	3509	6065	4976
Belgium	18257	8273	4646
Taiwan	5469	6428	4578
Egypt	10306	5670	4030
Trinidad & Tobago	4012	5182	3719
Russia	1991	2241	3507
Mexico	9341	6056	3360
Algeria	5726	3845	3130
Malaysia	2502	3245	2968
Other Destinations	32999	34016	30570
Total For World	**252830**	**245935**	**211669**

Source: Global Trade Atlas

Policy:

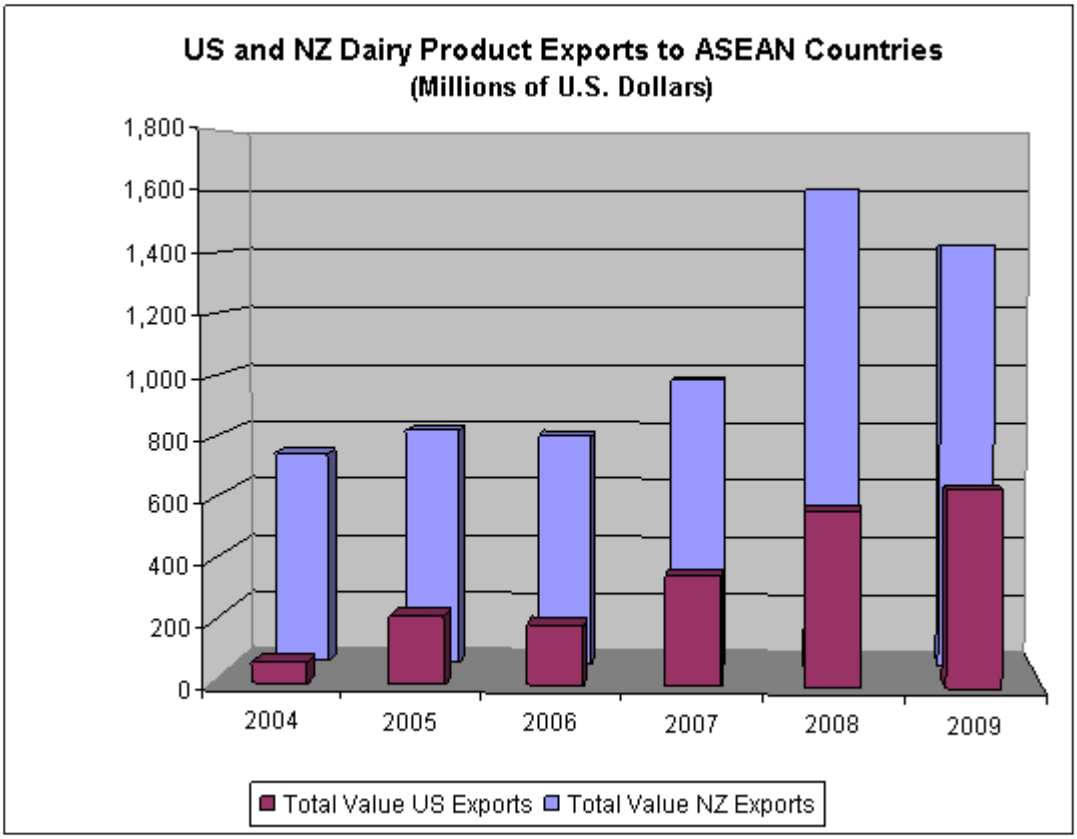
ASEAN FTA

After four years of negotiations, New Zealand, Australia and the Association of Southeast Asian Nations (ASEAN) signed an FTA in February 2009. The FTA will eventually eliminate tariffs on 99% of New Zealand's current exports to the four key ASEAN markets of Indonesia, Malaysia, the Philippines and Vietnam. On full implementation, this is estimated to equate to an annual duty savings of approximately NZ $50 million based on current trade.

Tariffs on key dairy products will be eliminated at various stages between 2010 and 2020. Examples of exports on which tariffs will be eliminated by 2010 are whole milk powder, butter and cheese in Indonesia; and casein, milk powder, cheese and butter milk in the Philippines. These products currently face tariffs of up to 5%. Examples of products with

later elimination dates include unsweetened skim milk powder in Indonesia; casein, butter milk and butter oil in Vietnam; liquid milk, butter and some cheese in the Philippines.

The agreement does not contain any specific agricultural safeguards. For more information on the agreement, click on this link: http://www.asean.fta.govt.nz



Source: Global Trade Atlas

While U.S. dairy exports to the ASEAN region have increased rapidly, the recently negotiated agreement between New Zealand and ASEAN countries will give New Zealand dairy products a competitive advantage over U.S. products.

Selected Tariff Rate Comparisons for US and NZ Dairy Products							
Commodity	**HS Code**	**Vietnam**			**Indonesia**		
		Tariff for US exports	Current tariff on NZ exports	Phased out for NZ by	Tariff for US exports	Current tariff on NZ exports	Phased out for NZ by
SMP	0408.10.11	10%	10%	2016	0%	5%	2019

	0408.10.12	15%	15%	2019	0%	5%	4% by 2015
	0408.10.13-19	30%	30%	2019	0%	5%	4% by 2015
	0408.10.21	10%	10%	2017	0%	5%	2010
	0408.10.22	15%	15%	2020	0%	5%	2010
	0408.10.23-29	30%	30%	2020	0%	5%	2010
Cheese	0406.10.00	20%	10%	2019	5%	5%	2010
	0406.20.10	20%	10%	2016	5%	5%	4% by 2015
	0406.20.90	20%	10%	2017	5%	5%	4% by 2015
	0406.30.00	20%	10%	2017	5%	5%	2010
	0406.40.00	20%	10%	2020	5%	5%	2010
	0406.90.00	20%	10%	2017	5%	5%	2010
Whey & other products	0404.10.11	20%	20%	2017	5%	5%	2017
	0404.10.19	30%	30%	2017	5%	5%	4% by 2015
	0404.10.91	20%	20%	2018	5%	5%	4% by 2015
	0404.10.99	30%	30%	2018	5%	5%	4% by 2015
	0404.90.10	30%	30%	2019	5%	5%	2010
	0404.90.90	30%	30%	2019	5%	5%	2010

Source: Vietnamese Embassy, Wellington, New Zealand, Agricultural Affairs Office Indonesia

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid New Zealand	2007 Revised			2008 Estimate			2009 Forecast		
	June/July Marketing Year								
1,000 Head, and 1,000 MT	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Cows In Milk	4163	4140	4163	4200	4200	4200			4365
Cows Milk Production	15595	15600	15640	14876	15096	15141			16400
Other Milk Production	0	0		0	0	0			0
Total Production	15595	15600	15640	14876	15096	15141			16400
Other Imports	0	0		0	0	0			1
Total Imports	0	0		0	0	0			1
Total Supply	15595	15600	15640	14876	15096	15141			16401
Other Exports	61	50	76	61	92	92			109
Total Exports	61	50	76	61	92	92			110
Fluid Use Dom. Consumption	360	360	360	360	360	345			331
Factory Use Consumption	15129	15145	15159	14410	14599	14659			15915
Feed Use Dom. Consumption	45	45	45	45	45	45			45
Total Dom. Consumption	15534	15550	15564	14815	15004	15049			16291
Total Distribution	15595	15600	15640	14876	15096	15141			16401
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	0	0	0	0	0	0			0
TS=TD			0			0			0

PSD Cheese New Zealand	2007 Revised			2008 Estimate			2009 Forecast		
	June/July Marketing Year								
(1,000 MT)	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	32	46	46	6	20	20			33
Production	308	319	308	321	321	314			345
Other Imports	3	3	3	3	3	6			6
Total Imports	3	3	3	3	3	6			6
Total Supply	343	368	357	330	344	340			384
Other Exports	309	300	309	299	299	283			280
Total Exports	309	300	309	299	299	283			280
Human Dom. Consumption	28	28	28	26	26	24			24
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	28	28	28	26	26	24			24
Total Use	337	328	337	325	325	307			304
Ending Stocks	6	40	20	5	19	33			80
Total Distribution	343	368	357	330	344	340			384
CY Imp. from U.S.	0	0		0		0			0
CY. Exp. to U.S.	30	30	30	30		19			19
TS=TD			0			0			0

PSD Butter New Zealand	2007 Revised			2008 Estimate			2009 Forecast		
	June/July Marketing Year								
(1,000 MT)	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	21	46	85	15	40	40			43
Production	458	419	419	385	379	391			405
Other Imports	1	1	1	0	0	2			2
Total Imports	1	1	1	0	0	2			2
Total Supply	480	466	505	400	419	433			450
Other Exports	439	400	439	360	353	367			365
Total Exports	439	400	439	360	353	367			365
Domestic Consumption	26	26	26	25	26	23			23
Total Use	465	426	465	385	379	390			388
Ending Stocks	15	40	40	15	40	43			62
Total Distribution	480	466	505	400	419	433			450
CY Imp. from U.S.	0	0	2	0	0	1			1
CY. Exp. to U.S.	30	30	34	30	30	22			22
TS=TD			0			0			0

PSD Nonfat Dry Milk New Zealand	2007 Revised			2008 Estimate			2009 Forecast		
	June/July Marketing Year								
(1,000 MT)	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	35	35	47	8	25	20			34
Production	304	304	304	262	262	265			310
Other Imports	1	1	1	0	0	1			1
Total Imports	1	1	1	0	0	1			1
Total Supply	340	340	352	270	287	286			345
Other Exports	327	310	327	257	257	251			275
Total Exports	327	310	327	257	257	251			275
Human Dom. Cons.	5	5	5	5	5	1			1
Other Use, Losses	0	0	0	0	0	0			1
Total Dom. Cons.	5	5	5	5	5	1			2
Total Use	332	315	332	262	262	252			277
Ending Stocks	8	25	20	8	20	34			68
Total Distribution	340	340	352	270	282	286			345
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	1	1	0	0	1	0			0
TS=TD			0			0			0

PSD WMP New Zealand	2007 Revised			2008 Estimate			2009 Forecast		
	June/July Marketing Year								
(1,000 MT)	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	39	70	57	22	40	40			70
Production	653	655	653	670	670	651			710
Other Imports	1	1	1	1	1	1			1
Total Imports	1	1	1	1	1	1			1
Total Supply	693	726	711	693	711	692			781
Other Exports	670	660	670	670	670	621			620
Total Exports	670	660	670	670	670	621			620
Human Dom. Cons.	1	1	1	1	1	1			1
Other Use, Losses	0	0		0	0	0			0
Total Dom. Consumption	1	1	1	1	1	1			1
Total Use	671	661	671	671	671	622			621
Ending Stocks	22	65	40	22	40	70			160
Total Distribution	693	726	711	693	711	692			781
CY Imp. from U.S.	0	0	0	0		0			0
CY. Exp. to U.S.	4	4	4	4	4	1			1
TS=TD			0			0			0

Author Defined:

Environmental Issues

Status of the Emissions Trading Scheme

A select committee is currently reviewing submissions regarding the direction that the New Zealand Government should take in addressing climate change issues. It is expected that the committee will issue a report in June. To date, the New Zealand Government has focused on a 2010 deadline to implement the Emissions Trading Scheme (ETS), which was passed last year just before the New Zealand election. Under the ETS, limits on greenhouse gas emissions would be imposed on all sectors of the economy but not all sectors would come under the ETS at the same time. Those that exceed their limits would have to buy carbon credits from those under their caps. As a stepping stone to this deadline, the Government aims to have draft legislation in place to amend the existing ETS by September of this year. The Government recently announced its intention to harmonize the design of the ETS with Australia's scheme. However, Australia has postponed the implementation of its scheme until July 2011. At this stage, it is not clear what impact this will have on New Zealand's implementation time line.

According to newspaper reports, Fonterra says the emissions trading scheme (ETS) should be kept, but only if changed significantly. This is a milder approach than that of the Federated Farmers, which has told the select committee the scheme should be scrapped because it would create economic disaster. Fonterra told the committee that New Zealand's dairy production could fall by 5%, costing the economy $650 million annually unless the ETS is changed. Fonterra is arguing for the agricultural component of the ETS to be based on an intensity measurement of emissions rather than the absolute total of emissions. They are advocating a best practice approach whereby the management techniques that economically minimize emissions become the benchmark and farms are rated against the benchmark.

Fonterra Conducts Carbon Footprint Study

Fonterra, in conjunction with the New Zealand Government and crown research institutes, has conducted a life cycle analysis of its carbon and other potential green house gas (GHG) emissions. The report is expected to be released in late May 2009.

Report Card for the Clean Streams Accord

In 2003, Fonterra announced the Dairying and Clean Streams Accord, an agreement it signed with the Ministry for the Environment, Ministry of Agriculture and Forestry and the Regional Councils. The accord was basically designed to pre-empt industry regulation following Fish and Game New Zealand's Dirty Dairying campaign in the early 2000s.

The Dairying and Clean Streams Accord set five key standards:

- cattle must be excluded from 90% of streams, rivers and lakes by 2012;
- 90% of regular crossing points must have bridges or culverts by 2012;
- 100% of farm dairy effluent discharges to comply with resource consents and regional plans immediately;
- 100% of dairy farms to manage nutrient inputs and outputs by 2007; and
- 90% of regionally significant wetlands to be fenced by 2007

In March 2009, the Ministry of Agriculture and Forestry released its annual "snapshot" of how the scheme is performing. While Fonterra has done well to ensure most of these

targets are being met, the most important and most visible, effluent discharge, hasn't improved significantly since the scheme was introduced. Overall, the level of full compliance with effluent discharge requirements across the 2007/2008 year was 70%, slightly higher than last season's 68% but nowhere near the target of 100%. The level of significant non-compliance – willful or negligent discharge of a serious nature – recorded in 2007/08 was 11%, slightly lower than 2006/07's result of 12%.